DEFICIT FINANCING OF GOVERNMENT OF MAHARASHTRA: A STUDY

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Abstract:

The present research Study examines various deficit indicators at state level is important because the state government deficit also increase the total deficit of the state. When the government of a country resort to deficit budget as a means for raising funds, it is known as deficit financing Budget deficit means that the current expenditure of the government is more that its current receipts. Thus, the deficit represents the gap between the current expenditure and current income of the government and when this gap is filled by obtaining funds by means other than taxation. This research paper focuses on examining the Deficit Finance, Revenue Deficit, Budgetary Deficit, Fiscal Deficit, Primary Deficit, Trends in Parameters of Deficits of Government of Maharashtra etc. The core material for the study was arranged by means of secondary data collected through gathered from published and unpublished records. The study is limited to a twenty four year especially in the post reforms period namely 1991-92 to 2014-15(BE). The foregoing discussion provides the analysis of the level of deficit of the government of Maharashtra during the period 1991-92 to 2014-15. It is very much clear that the level of Fiscal Deficit and Primary Deficit is significantly higher than the Revenue Deficit. But this does not mean that Revenue Deficit is not a problem before the state government. No doubt, it is a problem but of lower level. The noteworthy thing is that in the last some years the government has to some extent succeeded in controlling fiscal deficit, but has not succeeded in reducing the level within the provisions in the fiscal responsibility and budget management Act.

Keywords: Deficit Finance, Revenue Deficit, Budgetary Deficit, Fiscal Deficit, Primary Deficit, Parameters of Deficits, etc.

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Introduction:

Today, deficit financing has emerged an important tool o financing the government expenditure, it means as filling the gap caused by the excess of government expenditure over its receipts through the creation of new currency. Here public expenditure consists of the disbursement on revenue account and capital account whereas government receipts include the revenue on current account and capital account; the problem of deficit is of grave intensity. It is the fiscal deficit, which is more intensive than the Revenue Deficit. Of the total study period the years in which the government of Maharashtra faced Revenue Deficit, it was significantly higher and a thing of concern. The budgetary deficit was a problem for some years out of total study period, for majority of times it was in surplus. Fiscal deficit and primary deficit are more intensive than all other measures of the deficit and consequently the deficit problem."The gap in resources is made up partly through external assistance, but when external assistance is not enough to fill the gap; deficit financing has to be resorted to. The targets of production and employment in the plans are fixed primarily with reference to what is considered as the desirable rate of growth for the economy."(http://www.yourarticlelibrary.com/india-2/deficit-financing-in-india)

Study of various deficit indicators at state level is important because the state government deficit also increase the total deficit of the state. When the government of a country resort to deficit budget as a means for raising funds, it is known as deficit financing Budget deficit means that the current expenditure of the government is more that its current receipts. Thus, Datar M.K. say's that the, " deficit represents the gap between the current expenditure and current income of the government and when this gap is filled by obtaining funds by means other than taxation, it is known as deficit financing. The process of fiscal correction encompasses finances of not only the central government but also of various state governments. Therefore, the finances of various state governments also need closer attention. As regards Maharashtra, the budget presented in the state assembly on March 21, 2005 deserves closer public scrutiny, if not praise, for the extent of success it envisages in correcting fiscal imbalance".(Datar M.K.2005,p.1810.)

Chelliah R.J. explained that the, "experience of many underdeveloped countries during the war and post war years, these countries indulged in considerable amounts of deficit financing, first for prosecuting the war and later for purpose of reconstruction. This resulted in a good deal of inflation and monetary relay upon deficit spending as a short rout to full employment and higher output. The great volume of under-employment and unemployment that one finds in an over populated country arises from a lack of complementary factory of production that can be combined with labour, and not because of lack of monetary demand. This is long run problem calling for a long-run solution".(Chelliah R.J.1960, p.33).

Meaning of Deficit Finance:

Deficits finance means, "the financing of deliberately created gap between public revenue and public expenditure or a budgetary deficit, the method of financing resorted to being borrowing of a type that results in a net addition to national outlay or aggregate expenditure."(Misra, S. K. & Puri, V. K, 2003, p. 825).

Deficit financing was given up from 1997-98 on the recommendation of Sukhmay Chakravarty Committee and the 'overall budgetary deficit' was replaced by 'fiscal deficit' that means budgetary deficit plus market borrowing and other liabilities created during the year. During recent years, the government has introduced the concept of 'primary deficit', which is derived after deducting the interest payments from the fiscal deficit. (Hajela, T. N., 2010, pp. 353-354)

"Deficit finance is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on Revenue or on Capital Account. The essence of such a policy lies, therefore, in government spending in excess of the revenue it receives in the shape of taxes earnings of state enterprises, loans from the public, deposits and funds and other miscellaneous sources. The government may cover the deficit either by running down its accumulated balances or by borrowing from the banking system (mainly) from the centre bank of the country and thus creating money." (Misra & Puri, 2003, p. 826)

The term deficit financing is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on Current Revenue or of Capital Account. The essence of such a policy lies, therefore in government spending in excess of the revenue is receives in the shape of taxes, earning of state enterprises, loan from the public, deposits, fund, and other miscellaneous sources. The government may cover either by running down its accumulated balances or by borrowing from the banking system. (Mainly from the Central Bank of the country and thus creating new money)." (Lekhi, R. K., 2009, p. 239) and First Five Year Plan reporting that the,"Term of deficit financing is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficit are on Revenue or Capital Account." (Government of India, First Five Year Plan, p. 60).

"Deficit financing means any expenditure by the government that is in excess of its current revenues. Hence, expenditure that is financed by borrowing from the public is included by the measure of deficit in the budget". (Chelliah R.J.1960, p.33.p.150). Deficit financing is that there is a place for it in an economy that is growing, but that it is not likely to be quantitatively significant as a means of raising the rate of investment and deficit finance can occupy in a programme of planned development cannot be of a quantitatively significant magnitude in a country like India". (Chelliah R.J.1960,p.33.p.154).

Measures of Deficit financing:

In the recent year, various concepts of deficit are used frequently. The measures of deficit finance and the various concepts use in our study are as follows:

1. Revenue Deficit:

Revenue deficit means that Tax and Non-tax revenues became insufficient to cover the revenue expenditure of government leading to used of capital receipts to fill up the revenue gap thus created.

Total Revenue Deficit = Total Revenue Expenditure – Revenue Receipts (Tax & Non-Tax)

2. Budgetary Deficit:

Usually government expenditure always exceeds government revenue. This leads to a budget deficit.The difference between receipts. (Revenue +Capital) received by the government and the total expenditure (Revenue +Capital) incurred by the government is budgetary deficit.

Budgetary deficit = Total Expenditure – Total receipts (Revenue+ Capital) (Revenue + Capital)

3. Fiscal Deficit:

Fiscal Deficit = Total Revenue Receipts – Total Expenditure (Tax + Non-Tax + Capital Receipts other than Loans) (Revenue + Capital)

The above concept of budgetary deficit excluded the element of government borrowing and hence was not wide in its scope. The real picture of deficit of the financial operations of the government had to include not only budgetary or monetized deficit but also all borrowings and other liabilities of the government. The *S. Chakravarty Committee* on the working of monetary system as well as international monetary fund gave emphasis on these aspects of deficit and hence in recent year the concept of fiscal deficit is being more popularly used. Fiscal Deficit has much wider connection in as much as it measures the total resource gap in terms of excess of total expenditure over revenue receipts. Hence fiscal deficits measure the net addition to public debt.

4. Primary Deficit:

It is the fiscal deficit less interest payments.

Primary Deficit = Fiscal Deficit – Interest Payment

"The primary deficit came down to zero in 2003-04 which implied that all the proceeds from government borrowing were used to spend on making interest payment on the past public debt. In the recent years 2006-07, 2007-08, primary deficit has been negative (-0.2)". (http://www.yourarticlelibrary.com/economics/the-fiscal-policy-and-fiscal-deficit-in-india/38124/)

Trends in Parameters of Deficits of Government of Maharashtra:

Table No. 1 gives details of Gross Fiscal Deficit, Revenue Deficit, Budgetary Deficit and Primary Deficit of the Government of Maharashtra. Gross Fiscal Deficit increased from Rs. 1238 crores in 1991-92 to Rs. 9130 crores in 1997-98 and further increased to Rs. 8976 crores in 2000-01, Fiscal Deficit increased to Rs. 13999 crores in 2008-09 and further increased to Rs. 38611 crores for the year 2014-15.

IJPSS Volume 6, Issue 4 ISSN: 2249-5894

Table No. 1

Trend in Parameters of Deficits of Government of Maharashtra

(Rs. in Crore)

Sr. No.	Year	Revenue Deficit	Primary Deficit	Budgetary Deficit	Fiscal Deficit	% of Revenue Deficit to Fiscal Deficit
1	**2**	**3**	**4**	**5**	**6**	**7**
1	1991-92	-250	79	943	1238	-20.19
2	1992-93	-309	-278	809	1058	-29.21
3	1993-94	74	-755	1163	2265	3.27
4	1994-95	-498	2303	-1757	4497	-11.07
5	1995-96	-3585	2480	-2847	5660	-63.34
6	1996-97	-4167	2665	-3775	6784	-61.42
7	1997-98	-3285	3114	-3011	9130	-35.98
8	1998-99	-6258	4697	-2919	1330	-470.53
9	1999-00	-7083	8883	-3112	13646	-51.91
10	2000-01	-5354	3751	3151	8976	-59.65
11	2001-02	-7498	4469	109	10898	-68.80
12	2002-03	-11831	7160	-2414	14290	-82.79
13	2003-04	-9010	9593	-891	17928	-50.26
14	2004-05	-8041	9641	2116	18620	-43.18
15	2005-06	-2529	8283	10565	17630	-14.34
16	2006-07	3436	-103	2614	11553	29.74
17	2007-08	18240	-15756	2544	-2824	-645.89
18	2008-09	8427	975	3214	13999	60.20
19	2009-10	-3796	11318	3722	26156	-14.51
20	2010-11	3090	3209	2283	18857	16.39
21	2011-12	3325	3365	5988	19969	16.65
22	2012-13	9753	4543	4862	13740	70.98

Sr. No.	Year	Revenue Deficit	Primary Deficit	Budgetary Deficit	Fiscal Deficit	% of Revenue Deficit to Fiscal Deficit
1	2	3	4	5	6	7
23	2013-14 (RE)	2827	5190	5933	26563	10.64
24	2014-15 (BE)	-2563	17399	8540	38611	-6.64
	Mean	**-1120.20**	**4009.37**	**1576.25**	**12523.91**	**-64.41**

Sources: Economic Survey Government of Maharashtra, Various Issues

Note: RE = Revised Estimates, B. E. = Budget Estimates.

Gross Fiscal Deficit indicates how much borrowing the governments undertaking to fulfill its expenditure commitment. It also gives an indicator of the composition of borrowings and both growth of borrowing as is, composition is very important for public debt management. Along with growing public debt, more so internal one also sees a trend of gradual increase in parameters of deficits of Maharashtra state government. However, in the later year the efforts of the government have been note worthy to keep the rise in deficits within manageable limits. This is also meant that monetized deficit is also controlled and the centre has kept a firm hold on the limits of deficits financing. This has been mainly done to keep inflation under control so that prices do not take upward swing. The new economic policy adopted since 1991, surely needs inflationary potential to be kept under check, and reduction; in deficit financing and efforts of the state governments to keep the deficits, also within limits have contributed a great deal to keep inflation compared to other state's lower in our domestic economy.

Bhatt V.V. say's that the, "During the post-war period, the problem of the underdeveloped economies became prominent. It was widely realized that the State had inevitably to play an active role in the development of the underdeveloped economies and even for that reason, some deficit financing was inevitable".(Bhatt V.V.,1960.p.938)

Our study amply reveals that the single largest contributory factor to gross fiscal deficit has been the inability of the state government to keep down the fast growth in its revenue deficits during the entire period under study. Growth in Revenue Expenditure, rise in interest payments, and use of capital receipts for Revenue Expenditure have been fiscal issues that need deeper probe and analysis. The main source spring of the debt is the Revenue Deficit, which measures the gap between the Revenue Expenditure and Revenue Receipt of the state government of Maharashtra state. Table No. 1 shows that the magnitude of the Revenue Deficit is increasing observed during the period under study.

The overall budgetary trend of the Government of Maharashtra shows deficit position that year, revenue deficit was increased from Rs. 250 crores in 1991-92 to Rs. 4167 crores in 1996-67 and which fell to Rs. 3285 crores in 1997-98. And again, revenue deficit increased to Rs. 6258 crores in 1998-99 to Rs. 12597 in 2002-03. And once again, it fell down to Rs. 8378 crores in 2003-04 and decreased to Rs. 4535 crores in 2005-06. Further revenue deficit smoothly in minus increased to Rs. 8006 crores in 2009-10 and speedily fell in Rs. 590 crores in 2010-11. Further again increased in Rs. 2269 crores in 2011-12 to Rs. 8708 crores in 2014-15 (BE) respectively. Whereas, the overall revenue trend of government of Maharashtra shows surplus position, that year surplus was Rs. 74 crores in 1993-94 and next four years, it was in surplus position, which stood at Rs. 810 crores, Rs. 14803 crores, Rs. 5577 crores, and Rs. 4210 crores in 2006-07, 2007-08, 2008-09 and 2012-13 respectively.

It is concluded that the lower growth of revenues and steady growth of government expenditure, particularly non-planned spending is the root cause of this fiscal crisis. In order to bridge the gap between Receipt and Expenditure, state government resorted to borrowings both internal as well as external and as a least resort of deficit financing which is reflected in the extent of fiscal and budgetary deficits. The primary deficit, which was Rs. 79 crores in 1991-92, which was fell to Rs. 278 crores in 1992-93. But they started climbing up from Rs. 2303 crores in 1994-95 to Rs. 8283 crores in year 2005-06. And also rose to Rs. 11318 crores in 2009-10 respectively. Thus, primary deficit has completely decreased in the next year 2010- 11, to Rs. 3209 crores compared to previous year 2009-10. Otherwise, the Table No. 4.4 shows that the primary deficit has increased substantially in the same year to Rs. 5190 crores in the year 2013-14 and reached to Rs. 17399 crores in budgeted estimates for the year 2014-15 respectively.

The overall budgetary trend of the state government of Maharashtra shows deficit position that year, budgetary deficit was Rs. 1757 crores in 1994-95 and increased to Rs. 2847 crores in 1995-96 to Rs. 5775 crores in 1996-97. And fell to Rs. 3011 crores and Rs. 2919 crores in 1997-98 and 1998-99. Further, that years deficit increased to Rs. 3112 crores, Rs. 3180 crore in 1999-2000 and 2002-03. And further again deficit fell to Rs. 615 crores and Rs. 259 crores and Rs. 12 crores in 2001-02, 2003-04, and 2006-07 and again increased to Rs. 488 crores in 2009-10. Further increased to Rs. 1397 crores in 2010-11 and decreased to Rs. 681 crores in 2012-13 respectively. On the other hand, budgetary trend of state government of Maharashtra which is surplus position that year, surplus was Rs. 943 crores in 1991-92 and increased in two years surplus was Rs. 809 crores and Rs. 1163 crores in 1992-93 and 1993-94. Further, it decreased to Rs. 626 crores in 2000-01 and Rs. 124 crores in 2004-05 and again speedily increased to Rs 8559 crores in 2005-06 respectively. And once again budgetary surplus fell down to Rs. 364 crores in 2008-09 and rose to Rs. 394 crores in 2011-12 and further surplus position sharply fell down to Rs. 89 crores and increased to Rs. 2395 crores in 2013-14(RE) and 2014-15(BE) respectively. The Fiscal Deficit which was Rs. 1058 crores in the year 1992-1993 which shot up to Rs. 26563 crores in the year 2013-14 respectively, and fell to Rs. 2824 crores in the year 2007-08, and again it reached upto Rs. 28611 crores in the year 2014-15 respectively. Lahiri A.K. stated that the ,“ fiscal deficit of the central government was equivalent to 8.3 per cent of GDP in 1990-91.1 The reform and stabilisation package launched in 1991 had deficit reduction as one of its main strategies. The central government's deficit was reduced from 8.3 per cent of GDP to 5.9 per cent in 1991-92 and further to 5.7 per cent in 1992-93.2” (Lahiri A.K.,2000,p.4048.)

The foregoing analysis of the problem of deficit and its measures of the government of Maharashtra during the period 1991-92 to 2014-15 reveals that, in absolute terms the problem of deficit is of grave intensity. It is the fiscal deficit, which is more intensive than the Revenue Deficit. Michael W. C. explained that the, “ revenue-maximizing rate of inflation and the welfare cost associated with general deficit finance are compared to those previously associated with simple inflationary finance, debt financing to constitute a feasible means of generating revenue, public debt must be in some sense an imperfect substitute for private debt. More specifically, government bonds must have some advantage (over privately issued bonds) in providing liquidity services."(Michael W. Cox,1983,p.273).

Of the total study period of 24 years in which the government of Maharashtra faced Revenue Deficit, it was significantly higher and a thing of concern. The budgetary deficit was a problem for some years out of total study period, for majority of times it was in surplus. Fiscal deficit and primary deficit are more intensive than all other measures of the deficit and consequently the deficit problem of the government of Maharashtra.

Trends in Parameters of Deficits of Government of Maharashtra:

The State Government of Maharashtra has enacted the Fiscal Responsibility and Budgetary Management (FRBM) Act in 2005 to discipline the government expenditure and refrain from frequent borrowings.

Table No. 2

Trend in Parameters of Deficits in State Government of Maharashtra Budget

(% in GSDP)

Sr. No.	Year	Revenue Deficit	Primary Deficit	Budgetary Deficit	Fiscal Deficit
1	**2**	**3**	**4**	**5**	**6**
1	1991-92	0.4	1.8	0.0	3.3
2	1992-93	0.8	0.6	0.0	2.0
3	1993-94	0.1	0.7	0.0	2.0
4	1994-95	-0.2	1.5	0.0	2.8
5	1995-96	0.4	1.5	0.1	2.8
6	1996-97	0.9	1.3	0.0	2.7
7	1997-98	1.9	1.9	0.0	3.4
8	1998-99	1.8	2.1	0.1	3.8
9	1999-00	1.8	2.2	0.0	4.1
10	2000-01	3.1	1.5	0.0	3.6

Sr. No.	Year	Revenue Deficit	Primary Deficit	Budgetary Deficit	Fiscal Deficit
1	**2**	**3**	**4**	**5**	**6**
11	2001-02	3.0	1.6	0.1	4.0
12	2002-03	3.1	2.4	0.0	4.8
13	2003-04	2.5	2.8	0.1	5.3
14	2004-05	2.6	2.5	0.0	4.9
15	2005-06	0.8	1.9	-0.1	3.6
16	2006-07	-0.1	-0.1	0.0	2.0
17	2007-08	-2.2	2.3	0.1	-0.4
18	2008-09	-0.7	0.2	0.0	1.9
19	2009-10	0.9	1.4	0.0	3.1
20	2010-11	0.1	0.3	0.1	1.8
21	2011-12	0.2	0.3	-0.1	1.7
22	2012-13	-0.3	0.4	0.0	1.0
23	2013-14 (RE)	0.2	0.4	0.0	1.8
24	2014-15 (BE)	0.2	0.4	0.0	2.4
	Mean	**0.89**	**1.3**	**0.0**	**2.9**

Sources: Economic Survey Government of Maharashtra, Various Issues

Note: RE = Revised Estimates, B. E. = Budget Estimates.

Table No 2 compares deficits in the state government budget as a percentage of GSDP, Revenue Deficit as a percentage of GSDP was 3.1% in 2000-01 and 2002-03, fell to 0.4% to 0.9% in 1991-92 to 1996-97. The percentage of Revenue Deficit to GSDP, which was 2.4% in 2003-04, declined to 0.8% in 2005-06, as a result of fiscal reform adopted by state government of Maharashtra. The percentage of Revenue Deficit to GSDP was -2.2% in 2007-08, the lowest in last seven years. From 2008-09 onward, Revenue Deficit was less than one percent of GSDP, even less than zero for 2008-09 and 2012-13 respectively. Though the state enjoyed Revenue

Surplus during 2008-09, due to increased salary burden, Revenue Deficit was 0.9% of GSDP during 2009-10, during 2010-11, with the efforts to increase the tax recovery and plugging the loopholes in the revenue collection. During the year 2013-14, Revenue Deficit as a percentage of GSDP was 0.2% and same period budgeted estimates for the year 2014-15.

Primary deficit as a percentage of GSDP was increased substantially from 2.8% in 2003-04, again fell to 1.4% in 2009-10. While budgetary deficit as a percentage of GSDP shows the trend from zero percentage in 1991-92 to 2014-15 (BE) respectively whereas fiscal deficit as a percentage of GSDP was 3.3% in 1992-92, brought down to 2.7% in 1996-97, but rose to 3.4% to 4.1% in 1997-98 to 1999-2000 brought down to 3.6% in 2000-01, and stood at highest level in 2003-04. This significant increase in Fiscal Deficit resulted into grave fiscal crisis. In the year of 2008-09 and 2012-13, fiscal deficit is less than one percent of GSDP, even less than zero, to state GSDP is declining over the year. The Fiscal Deficit, which was 4.5% of GSDP in 2004-05, has gradually declined to - 0.4% of GSDP in 2007-08, and then onwards, till 2012-13, fiscal deficit remained less than 2% except in 2009-10, when it was 3.1% of GSDP. To improve fiscal scenario, State Government of Maharashtra launched fiscal stabilization programme, under which state government was wanted to bring down deficit to 2.4% of the GSDP by 2014-15.

Dholkiya R.H & Karan N.say's that the, "primary deficit on own account (PDOA), reflecting the fiscal behaviour of a state and the transfer of resources from the centre, are critical factors determining fiscal deficits of states. With our measurement of debt, the behavior of the fiscal deficit over time would directly affect the debt position of a state".(Dholkiya R.H & Karan N.,2005,p.2586.)

Table No. 2 shows that Fiscal Deficit fell from 5.3% in 2003-04 to 4.9% in the year 2004-05 and 2.6% in 2005-06. The Fiscal Deficit swells to 2.4% in budgeted estimates for the year 2014-15 respectively. The state government Fiscal Deficit GSDP ratio shows increase to 3.6% in 1991-92, which increased to 3.4% in 1997-98, 3.8% in 1998-99. And 3.6% in 2000-01 and same percentage in 2005-06 respectively, onwards this ratio has declined from 3.3% to 2.4% in budgeted estimates for the year 2014-15 respectively. Revenue Deficit GSDP ratio shows increasing trend from 0.4% in 1991-92 to 1.8% in 999-2000 and further to 3.1% in 2002-03 after

2003-04, this GSDP ratio indicators declined and it is in minus figures.

Conclusion:

Overall, the study of various major deficit indicators at state level is important, because the state government deficit also increases the Total Deficit of state finance taken together for overall state finance data. The state wise analysis of the deficits also helps us to examine the state wise picture of the deficit situation and make comparison as far as the implementation of fiscal reforms being attempted. And the other hand deficit financing has certain positive effects on social and economic life of the advance as well as backward countries. These effects, by and large depend on the stage of economic development, the prevailing circumstances and for which deficit financing is attained. It has been a matter of greater controversy that deficit financing has more constructive use in backward countries. It can be an instrument of great use of for offsetting depression and for accelerating the pace of economic development at a high rate. But at the same time, it also tends to be inflationary, if there are imperfections and rigidities in the economy; it turns out to be very dangerous. This is the reason that it is called bad master but a good servant. Under these circumstances, it needs proper handling especially in the underdeveloped countries. Moreover, it must be kept within limits. It should be accompanied by anti-inflationary measures and its effects should be watched carefully. The foregoing discussion provides the analysis of the level of deficit of the government of Maharashtra during the period 1991-92 to 2014-15. It is very much clear that the level of Fiscal Deficit and Primary Deficit is significantly higher than the Revenue Deficit. But this does not mean that Revenue Deficit is not a problem before the state government. No doubt, it is a problem but of lower level. The noteworthy thing is that in the last some years the government has to some extent succeeded in controlling fiscal deficit, but has not succeeded in reducing the level within the provisions in the fiscal responsibility and budget management Act.

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